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Message Text

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COME-00 EB-07 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 AGR-10 AGRE-00 DODE-00 NSCE-00 SSO-00

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TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 5517
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
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AMCONSUL BELFAST
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USMISSION EC BRUSSELS
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DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD SEPT. 8 - 14.

SUMMARY: THE CENTRAL GOVERNMENT'S BORROWING REQUIREMENT
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FOR AUGUST AND THAT FOR FIRST FIVE MONTHS OF FY 1976

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ARE SIGNIFICANTLY BELOW THEIR LEVELS FOR THE COMPARABLE PERIODS OF LAST YEAR, BUT THIS TREND DOES NOT REFLECT IMPACT OF INCOME TAX CUTS THAT WENT INTO EFFECT IN AUGUST. RETAIL SALES FIGURES RELEASED THIS WEEK REVEAL NO NEW TREND. WHOLESALE PRICES CONTINUE TO CLIMB. REFLECTING THE LAGGED EFFECT OF STERLING DEPRECIATION. STERLING HAD AN UNSETTLED WEEK, AS THE BANK OF ENGLAND LET THE FOREIGN EXCHANGE MARKET FIND ITS OWN LEVEL. THE MINIMUM LENDING RATE WAS INCREASED SHARPLY, AND OTHER INTEREST RATES FOLLOWED. END SUMMARY

1. CENTRAL GOVERNMENT. THE CENTRAL GOVERNMENT BORROWING REQUIREMENT (CGBR) FOR AUGUST 1976 WAS ESTIMATED AT 637 MILLION POUNDS. IT REFLECTED A 690 MILLION POUND GAP BETWEEN CURRENT REVENUE AND EXPENDITURE WHICH WAS COVERED BY AN ADVANCE OF 768 MILLION POUNDS FROM THE NATIONAL LOANS FUND. PARTIALLY OFFSETTING THIS ADVANCE WAS A SURPLUS IN OTHER FUNDS OF 131 MILLION POUNDS RESULTING MAINLY FROM INCREASED NATIONAL INSURANCE CONTRIBUTIONS. OVER THE FIRST FIVE MONTHS OF THE CURRENT FISCAL YEAR, TOTAL REVENUE INCREASED BY 15.7 PERCENT FROM THE COMPARABLE PERIOD IN FY 75/76 WHILE EXPENDITURE ROSE BY 12.8 PERCENT. THIS HAS PRODUCED A CGBR OF 2.933 BILLION POUNDS AS COMPARED WITH 3.656 BILLION FOR THE APRIL-AUGUST 1975 PERIOD. WHILE THE CGBR IS CURRENTLY RUNNING AT AN ANNUAL RATE OF ABOUT 30 PERCENT LESS THAN THE 10.4 BILLION POUNDS OFFICIALLY ESTIMATED, THE FIGURES FOR THE FIRST FIVE MONTHS DO NOT FULLY REFLECT THE SLOWER REVENUE GROWTH STEMMING FROM THE INCOME TAX CUT WHICH WENT INTO EFFECT IN AUGUST. IN ADDITION, THE DEGREE OF IMPROVEMENT IN THE FINANCIAL POSITION OF THE NATIONALIZED INDUSTRIES APPEARS

TO HAVE BEEN SOMEWHAT GREATER THAN INITIAL ESTIMATES. THE FOLLOWING TABLE SUMMARIZES CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS FOR THE APRIL-AUGUST PERIOD:

POUNDS MILLIONS

CONSOLIDATED FUND	1976-77 BUDGET FORECAST	1 APRIL 31 AUGUST 1975	1976	AUGUST 1975	1976
REVENUE	33,197	11,275	13,044	2,198	2,279
EXPENDITURE	39,915	14,034	15,824	3,053	2,969
DEFICIT MET FROM THE NATIONAL LOANS FUND	-6,718	-2,759	-2,780	-855	-690
OTHER NATIONAL LOAN FUND TRANSACTIONS					
RECEIPTS	4.900	1,189	1,671	220	231

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PAYMENTS 8,932 2,348 2.296 290 309
TOTAL NET BORROW-
ING BY THE NATION-
AL LOANS FUND -10,750 -3,918 -3.405 -925 -768

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SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

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USIE-00 INRE-00 EURE-00 /120 W
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O R 151806Z SEP 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 5518
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OTHER FUNDS AND

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ACCOUNTS 324 262 472 45 131
CENTRAL GOVERNMENT
BORROWING RE-
QUIREMENT -10,426 -3,656 -2.933 .880 -637
EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CONCERNED WITH THE FINANCING OF THE BORROWING REQUIREMENT.
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2. WHOLESALE PRICES. WHOLESALE PRICES HAVE BEGUN TO REFLECT BOTH THE SHARP DECLINE IN STERLING LAST SPRING AS WELL AS THE PERIOD OF RELATIVE STABILITY SINCE THEN. IN AUGUST. THE WHOLESALE PRICE INDEX (1970 EQUALS 100) FOR GOODS LEAVING THE FACTORY STOOD AT 223.4, A RISE OF 1.6 PERCENT FROM THE REVISED JULY FIGURE OF 219. . THE RATE OF INCREASE IN THIS INDEX OVER THE LAST 12 MONTHS WAS 15.5 PERCENT AND REPRESENTS THE FIRST INCREASEIN RATE OF GROWTH IN THE 12 MONTHS MOVING IHDEX IN OVER A YEAR. THIS BULGE SHOULD PERSIST THROUGH THE END OF THE YEAR AS THE EARLIER INCREASES IN RAW MATERIAL AND FUEL PRICES ARE PASSED THROUGH. HOWEVER, THE MORE RECENT STABILITY BOTH OF STERLING AND WORLD COMMODITY PRICES HOLD THE PROMISE OF A RETURN TO MORE MODERATE OUTPUT PRICE INCREASES BY YEAR END. THE WHOLESALE PRICE INDEX FOR RAW MATERIALS AND FUELS ROSE ONLY MARGINALLY FOR THE SECOND MONTH. IN AUGUST THAT INDEX STOOD AT 302.1, A RISE OF JUST 0.4 PERCENT FROM THE REVISED JULY FIGURE OF 301.6.

3. RETAIL SALES. THE VOLUME OF RETAIL SALES WAS LITTLE CHANGED IN AUGUST WITH THE INDEX (1971 EQUALS 100) STANDING AT A PROVISIONAL 108.0 COMPARED WITH 108.3 IN JULY. THE AUGUST FIGURES ARE VERY MUCH IN LINE WITH THE PATTERN OF THE LAST 18 MONTHS. OVER THAT PERIOD. SALES VOLUME HAS REMAINED APPROXIMATELY FLAT WITH THE AVERAGE LEVEL OF SALES VOLUME FOR THE FIRST 8 MONTHS OF 1976 1.1 PERCENT BELOW THE COMPARABLE PERIOD IN 1975. THE 8-MONTHS SALES STATISTICS FOR 1975 WERE, HOWEVER' SWOLLEN BY A SURGE IN CONSUMER DURABLE SALES IN ADVANCE OF THE MAY 1975 INCREASE IN THE VALUE ADDED TAX. WHILE THE BEHAVIOR OF THE INDEX IN JULY AND AUGUST COMPARED WITH MAY AND JUNE WOULD APPEAR TO BE CONSISTENT WITH A MODEST STRENGTHENING IN CONSUMER PURCHASES, THIS MARGINAL IMPROVEMENT IS MOST LIKELY THE RESULT OF SEASONAL CLEARANCE SALES, A RECORD TOURIST INFLUX AND THE RECEIPT OF THE LUMP SUM REBATE WHICH COMPRISES ABOUT A THIRD OF THE BILLION POUND TAX CUT ANNOUNCED IN THE APRIL BUDGET. OVER THE NEXT FOUR MONTHS THESE FACTORS WILL BE LESS IMPORTANT IN INFLUENCING THE INDEX AND THERE IS LITTLE REASON TO EXPECT ANY MOVEMENT AWAY FROM THE PRESENT PLATEAU.
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4. MINIMUM LENDING RATE (MLR) THE TREASURY BILL RATE ROSE BY 1 5506 PERCENT AT THE SEPTEMBER 10 AUCTION TO 12.4799 PERCENT. IN TURN BRINGING THE MINIMUM LENDING RATE (MLR) TO 13 PERCENT. A 1-1/2 PERCENT INCREASE AND THE HIGHEST LEVEL SINCE DECEMBER 1973. IT IS THOUGHT THAT THE BANKING AUTHORITIES WISH TO PUSH UP LONG TERM RATES TEMPORARILY TO FINANCE MORE OF THE GOVERNMENT'S BORROWING REQUIREMENT THROUGH THE SALE OF GILTS. AND THEREBY CHECK THE GROWTH OF M3. INTEREST RATES HAVE FOLLOWED THE MLR THROUGH THE WEEK AS THE CLEARING BANKS INCREASED THEIR BASE LENDING RATE 1-1/2 PERCENT TO 12 PERCENT AND THE RATE PAID ON SEVEN DAY DEPOSITS BY 2 PERCENT. BUILDING SOCIETIES FEELING THE PRESSURE OF THE INCREASED DEPOSIT RATES OF THE CLEARING BANKS MAY RAISE MORTGAGE RATES EVENTUALLY, BUT DECISIONS ON THE RATE STRUCTURE ARE NOT DUE UNTIL OCTOBER, AND NORMALLY SUCH A CHANGE WOULD THEN ONLY BECOME EFFECTIVE A MONTH OR TWO LATER.

5. FOREIGN EXCHANGE. THE FOREIGN EXCHANGE MARKET HAS MOVED ERRATICALLY BUT GENERALLY DOWNWARDS THROUGHOUT THE WEEK, STERLING DROPPING TO THE 1 73 RANGE ON OCCASION. THE MOVEMENT TOOK PLACE ON THURSDAY. SEPTEMBER 9 WHEN THE BANK OF ENGLAND STOPPED SUPPORTING STERLING AND THE POUND FELL 3-1/2 CENTS FROM THE 1 77 RANGE IN A MATTER OF A FEW MINUTES' THEN STEADIED TO CLOSE AT 1.7480 TO THE DOLLAR. MARKET SOURCES REPORT THEY HAVE NOT SEEN ANY INTERVENTION BY THE BANK OF ENGLAND SINCE THEN. THE WEEK HAS PRODUCED CONFLICTING NEWS ON THE U K.'S ECONOMIC PROSPECTS, BUT THE MARKET HAS NOT MOVED SIGNIFICANTLY ON ANY INFORMATION SINCE THE THURSDAY DECLINE. THE AVOIDANCE OF THE SEA-MEN'S STRIKE. THE INCREASE IN THE MLR, AND THE RELEASE OF TRADE STATISTICS SHOWING A NOTICEABLE IMPROVEMENT IN THE U.K 'S EXTERNAL ACCOUNT WERE ALL WELL RECEIVED BY THE MARKET. BUT GAVE ONLY TRANSITORY SUPPORT TO THE POUND. THE ONE MONTH FORWARD DISCOUNT FELL SHARPLY ON SEPTEMBER

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TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 5519
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AMEMBASSY BRUSSELS
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9, THEN BEGAN TO WIDEN THEREAFTER.

6. EXCHANGE RATE AND GOLD

DATE	EXCHANGE RATE ($)	EFFECTIVE DEPRECIATION (PERCENT)	GOLD ($)
9/8	1.7720	39.8	111-1/2

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9/9	L.7480	40.7	112-1/2
9/10	1.7528	40.5	116-1/2
9/L3	1.7485	40.7	114-1/2
9/14	1.7400	41.2	111-1/2

CHANGE 9/7 - 9/14 DN 0.0315 WIDENED 1.5 UP 1

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7 FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/8	1.80	4.55	8.25
9/9	1.25	3.92	7.70
9/10	1.35	3.95	7.65
9/13	1.35	4.05	7.85
9.14	1.40	3.97	7.80
CHANGE 9/7-9/14	UP 0.05	UP 0.07	UP 0.42

(ALL FIGURES IN CENTS)

8. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/8	5-1/8	6-1/2	6-1/8
9/9	5-1/2	5-7/8	6-1/8
9/10	5-1/2	5-1/2	6-1/8
9/13	5-3/4	5-5/8	6-1/8
9/14	5-3/4	5-5/8	6-1/8
CHANGE 9/7-9/14	UP 3/8	UP 1/8	UNCHANGED

9. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST RATE DIFFERENTIAL

DATE	
9/8	4-7/16
9/9	5-17/32
9/10	6-7/8
9/13	6.3/4
9/14	6-27/32

L0. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/8	10-3/4	1L.9/32	11-7/8
9/9	10-7/8	11-3/16	11-15/32
9/10	10.7/8	11-3/16	11-15/32
9/13	12	11-9/32	12-1/2
9/L4	12	11-9/32	12-17/32

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CHANGE 9/7-9/14 UP 1-3/16 UP L/32 UP 11/16

11. THE MINIMUM LENDING RATE ROSE BY 1-1/2 PERCENT TO 13 PERCENT AS A CONSEQUENCE OF THE SEPTEMBER 10, L976 TREASURY BILL AUCTION.

ARMSTRONG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 SEP 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON14607
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760348-0651
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760959/aaaabxxs.tel
Line Count: 380
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: vandyklc
Review Comment: n/a
Review Content Flags:
Review Date: 24 FEB 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 FEB 2004 by MaustMC>; APPROVED <25 AUG 2004 by vandyklc>
Review Markings:

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US Department of State
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04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD SEPT. 8 - 14. SUMMARY: THE CENTRAL GOVERNMENT'S BORROWING REQUIREMENT UNCLASSIFIED
TAGS: ECON, UK
To: TRSY STATE
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